

PRIMARY HEALTH SERVICES CENTER, INC.

MONROE, LOUISIANA

FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2009

WITH SUMMARIZED COMPARATIVE INFORMATION

FOR 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

9/15/10

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

PRIMARY HEALTH SERVICES CENTER, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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 - HUD Audits
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- Business & Financial Planning
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June 28, 2010

INDEPENDENT AUDITORS' REPORT

Board of Directors
Primary Health Services Center, Inc.
Monroe, Louisiana

We have audited the accompanying statements of financial position of Primary Health Services Center, Inc. (PHSC) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of PHSC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Primary Health Services Center, Inc. as of December 31, 2009, and the changes in its net assets, its functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2010 on our consideration of PHSC's internal control over financial reporting and on our tests of its compliance

with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of PHSC taken as a whole. The accompanying financial information on pages 21 through 25 is presented for additional analysis, and is not a required part of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Johnston, Perry, Johnson & Associates, L.L.P.

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June 28, 2010

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Primary Health Services Center, Inc.
Monroe, Louisiana

We have audited the financial statements of Primary Health Services Center, Inc. as of and for the year ended December 31, 2009, and have issued our report thereon dated June 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PHSC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PHSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PHSC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Johnston, Perry, Johnson & Associates, L.L.P.

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June 28, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Primary Health Services Center, Inc.
Monroe, Louisiana

Compliance

We have audited the compliance of Primary Health Services Center, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal program(s) for the year ended December 31, 2009. PHSC's major federal program(s) are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program(s) is the responsibility of PHSC's management. Our responsibility is to express an opinion on PHSC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PHSC's compliance with

those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of PHSC's compliance with those requirements.

In our opinion, PHSC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control over Compliance

The management of PHSC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PHSC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PHSC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2009-01. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a

material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

PHSC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit PHSC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana R.S. 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 WITH SUMMARIZED COMPARATIVE TOTALS FOR 2008

<u>ASSETS</u>		(Memo Only)
	<u>2009</u>	<u>2008</u>
<u>CURRENT ASSETS</u>		
Cash	524,021	437,978
Accounts Receivable, Net	1,432,756	1,042,959
Investments	100,000	-
Prepaid Assets	34,453	25,044
<u>TOTAL CURRENT ASSETS</u>	<u>2,091,230</u>	<u>1,505,981</u>
<u>FIXED ASSETS</u>		
Property and Equipment, Net	2,039,952	1,170,341
<u>NET FIXED ASSETS</u>	<u>2,039,952</u>	<u>1,170,341</u>
<u>OTHER ASSETS</u>		
Deposits	8,612	5,990
Loan Costs, Net	31,003	4,589
Reserves	7,070	7,033
<u>TOTAL OTHER ASSETS</u>	<u>46,685</u>	<u>17,612</u>
<u>TOTAL ASSETS</u>	<u>4,177,867</u>	<u>2,693,934</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	349,989	302,558
Payroll Taxes Due	5,179	4,063
Mortgage Payable - Short-Term	70,576	30,105
<u>TOTAL CURRENT LIABILITIES</u>	<u>425,744</u>	<u>336,726</u>
<u>LONG-TERM LIABILITIES</u>		
Mortgages Payable - Long-Term	817,011	357,210
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>817,011</u>	<u>357,210</u>
<u>TOTAL LIABILITIES</u>	<u>1,242,755</u>	<u>693,936</u>
<u>NET ASSETS</u>		
Unrestricted	1,869,373	1,393,415
Temporarily Restricted	1,065,739	606,583
<u>TOTAL NET ASSETS</u>	<u>2,935,112</u>	<u>1,999,998</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>4,177,867</u>	<u>2,693,934</u>

The accompanying notes are an integral part of these financial statements.

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JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009 AND WITH SUMMARIZED
COMPARATIVE TOTALS FOR YEAR 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009 Totals</u>	(Memo Only) <u>2008 Totals</u>
<u>REVENUE AND SUPPORT</u>				
Federal Grants				
Public Housing	1,854,606	-	1,854,606	1,351,853
Louisiana Dept. of Health and Hospitals	1,899	-	1,899	5,642
Medicaid/Medicare/Patient Donations	2,385,564	-	2,385,564	2,180,435
Other Grants	114,663	-	114,663	104,427
Other	69,769	-	69,769	-0-
	35,162	-	35,162	25,366
Net Assets Released from Restriction	606,583	(606,583)	-0-	-0-
Temporarily Restricted Revenue	-	1,065,739	1,065,739	606,583
<u>TOTAL REVENUE AND SUPPORT</u>	<u>5,068,246</u>	<u>459,156</u>	<u>5,527,402</u>	<u>4,274,306</u>
<u>EXPENSES</u>				
Program Expenses	3,616,974	-	3,616,974	3,265,779
Management and General	975,314	-	975,314	902,169
Fund Raising	-	-	-	-0-
<u>TOTAL EXPENSES</u>	<u>4,592,288</u>	<u>-0-</u>	<u>4,592,288</u>	<u>4,167,948</u>
<u>CHANGE IN NET ASSETS</u>	<u>475,958</u>	<u>459,156</u>	<u>935,114</u>	<u>106,358</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>1,393,415</u>	<u>606,583</u>	<u>1,999,998</u>	<u>1,893,640</u>
<u>NET ASSETS - END OF YEAR</u>	<u>1,869,373</u>	<u>1,065,739</u>	<u>2,935,112</u>	<u>1,999,998</u>

The accompanying notes are an integral part of these financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2009 AND WITH SUMMARIZED
COMPARATIVE TOTALS FOR YEAR 2008

<u>ITEM</u>	<u>Public Health Service</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>2009 Totals</u>	<u>(Memo Only) 2008 Totals</u>
Personnel	2,553,524	450,622	-	3,004,146	2,664,057
Fringe Benefits/ Insurance	277,493	48,969	-	326,462	262,437
Educational & Dues	-	36,638	-	36,638	65,197
Telephone	47,980	8,467	-	56,447	59,292
Interest	25,186	4,445	-	29,631	26,792
Office	80,780	121,169	-	201,949	175,622
Bad Debts	36,055	-	-	36,055	113,854
Professional Fees	6,816	10,224	-	17,040	67,574
Supplies & Services - Medical	164,163	-	-	164,163	105,259
Travel	-	1,397	-	1,397	2,403
Technical Assistance	-	126,450	-	126,450	90,913
Occupancy Cost	172,953	30,521	-	203,474	224,252
Other Costs	68,108	102,162	-	170,270	145,136
Depreciation	183,916	32,456	-	216,372	164,738
Amortization	-	1,794	-	1,794	422
<u>TOTALS</u>	<u>3,616,974</u>	<u>975,314</u>	<u>-0-</u>	<u>4,592,288</u>	<u>4,167,948</u>

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>2009</u>	(Memo Only) <u>2008</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Changes in Net Assets	935,114	106,358
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	218,166	165,160
(Increase) Decrease in Accounts Receivable	(389,797)	(128,682)
(Increase) Decrease in Prepaid Expenses	(9,409)	(267)
(Increase) Decrease in Other Assets	(30,867)	(42)
Increase (Decrease) in Accounts Payable	47,431	105,263
Increase (Decrease) in Accrued Payroll and Related Expenses	<u>1,116</u>	(10,824)
Net Cash Provided (Used) by Operating Activities	<u>771,754</u>	<u>236,966</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Acquisition of Capital Items	(1,085,983)	(129,892)
Investments	(100,000)	-
Net Cash Provided (Used) by Investing Activities	<u>(1,185,983)</u>	<u>(129,892)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Decrease in Notes Payable - Principal Payments	(62,728)	(30,937)
Loan Proceeds for SD Hill Clinic Real Property	<u>563,000</u>	-
Net Cash Provided (Used) by Financing Activities	<u>500,272</u>	<u>(30,937)</u>
<u>NET INCREASE (DECREASE) IN CASH</u>	<u>86,043</u>	<u>76,137</u>
<u>CASH AT BEGINNING OF YEAR</u>	<u>437,978</u>	<u>361,841</u>
<u>CASH AT END OF YEAR</u>	<u>524,021</u>	<u>437,978</u>
Supplemental Information		
Interest Paid	29,631	26,792
Income Taxes Paid	-0-	-0-

The accompanying notes are an integral part of these financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - ORGANIZATION:

Primary Health Services Center, Inc. (PHSC) was incorporated in the State of Louisiana as a community-based health program, primarily composed of adult and children medical treatment service in Monroe, Louisiana and north Louisiana.

PHSC is organized to provide efficient and effective health care through the operation of a health delivery system designed to meet the medical needs of the community, i.e., early detection and diagnosis, and treatment of illnesses and injuries; to facilitate an understanding of the desirability of initiating a program of preventive medicine; and to generally improve and promote the improvement of the community, civilly and socially. PHSC provides comprehensive primary health care to area residents, with particular care for the economically disadvantaged. The services are provided through an outpatient clinic with a referral program and health education.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Accounting Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Major Funding Source

PHSC receives funds from the United States Department of Health and Human Services (HHS) under Section 330 of the Public Health Service Act (42 U.S.C. 254c). In accordance with HHS policies, all funds disbursed must be in compliance with the specific terms of the grant agreement. HHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by the Corporation with the terms of the grant. In addition, if PHSC terminates its HHS grant activities, all unexpended funds must be returned to the Department of Health and Human Services. Loss of these funds would have a material adverse effect on operations.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Property and Equipment

Property and equipment are recorded at acquisition cost or fair market value if donated. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. A summary of property and equipment is contained in Note 5.

Repairs and maintenance are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations.

Income Taxes

PHSC is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state codes. Accordingly, no provision for federal and state income taxes is included in the financial statements.

Prior-Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Cash and Cash Equivalents (Continued)

equivalents approximates fair value because of the short maturities of those financial instruments.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The organization has determined that fund raising costs are not material.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions that expire in the same period are recorded as unrestricted income in the current period.

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS:

At December 31, 2009, temporarily restricted net assets of \$1,065,739 represent amounts awarded, but not received from federal and state grants. Amounts were received January through April 2010.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 4 - ACCOUNTS RECEIVABLE:

The Corporation extends credit to patients, as well as third-party intermediaries responsible for medical services provided to patients. In most cases, the amount collected is less than the amount billed. Amounts uncollectible after 150 days are written off. Therefore, the receivable balance has been reduced to the amount considered collectible. The reserve for bad debts is \$214,215. A summary of accounts receivable is presented below:

<u>Source</u>	<u>2009</u>
Medicare	156,422
Medicaid	274,068
Private Third Party Insurance	113,005
Dept. of Health & Human Services	1,070,539
Community Care	8,607
Self Pay - Patients	22,549
Other	1,781
Less: Reserve for Bad Debts	(214,215)
<u>Total</u>	<u>1,432,756</u>

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and certain equipment acquired with federal or state government funds are considered to be owned by PHSC while used in the program or in future authorized programs. However, the federal or state government retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale or disposal. Accordingly, PHSC may not transfer, mortgage, assign, lease, or in any other manner encumber these restricted items without prior approval of the federal government.

Major categories of property and equipment are as follows:

	<u>2009</u>
Land	194,541
Building	956,429
Computers	306,115
Improvements	288,562

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 5 - PROPERTY AND EQUIPMENT: (Continued)

	<u>2009</u>
Office Fixtures/Equipment	867,264
Vehicle	<u>267,625</u>
Total	2,880,536
Less: Accumulated Depreciation	(840,584)
Net Property and Equipment	<u>2,039,952</u>

NOTE 6 - DONATIONS:

Donations include the following:

In-Kind Rent	<u>61,104</u>
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The expenditures of the donations are included in the appropriate category on the financial statements.

NOTE 7 - LEASES:

The Corporation has entered into a lease with St. Francis Medical Center for space to provide medical services and administration at S. D. Hill Clinic. Amounts due for the next five years are as follows:

2010	61,104
2011	61,104
2012	-0-
2013	-0-
2014	-0-

The lease renewed December 1, 2006 for five years. These amounts were paid by an in-kind donation by St. Francis Medical Center.

NOTE 8 - CONCENTRATION OF CREDIT RISK:

The Corporation's bank account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 by each bank. At various times during the year the bank account balances exceeded \$250,000.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 9 - LOAN COSTS:

Loan cost consists of a commitment fee of 1.5% of the DeSiard Street mortgage loan amount \$4,335 and 1% of the Betin Street mortgage loan amount \$2,000. This will be amortized over a 15-year period. Loan cost consists of \$28,208 for loan fees in the purchase of the SD Hill building. This will be amortized over a 12-year period. Amortization expense for 2009 is \$1,794.

NOTE 10 - RESERVES:

Reserves consist of an account at Hope Credit Union in the amount of \$7,070, which is pledged to the payment of the mortgage loan and may only be withdrawn or disbursed with the written authorization of the mortgage company.

NOTE 11 - NOTES PAYABLE:

Long-term debt consists of a mortgage note that was refinanced November 22, 2006 in the amount of \$271,828 payable to Enterprise Corporation of the Delta over a 12-year period. The mortgage is payable in monthly installments of \$2,753, including interest at 7.75%, and adjusted quarterly for flexible interest rate. The interest rate on this note will not exceed 8.5%. The facility is pledged as collateral on the note. The current portion of the mortgage payable represents the amount of the principle which will be repaid during the next year. The loan is secured by corporate owned real estate located on DeSiard Street, Monroe, Louisiana.

Long-term debt consists of a mortgage note in the original amount of \$200,000 payable to Enterprise Corporation of the Delta over a 10-year period. The mortgage is payable in monthly installments of \$2,531, including interest at 7.25%, and adjusted quarterly for flexible interest rate. The interest rate on this note will not exceed 9.0%. The facility is pledged as collateral on the note. The current portion of the mortgage payable represents the amount of the principle which will be repaid during the next year. The loan is secured by corporate owned real estate located on Betin Street, Monroe, Louisiana.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 11 - NOTES PAYABLE: (Continued)

Long-term debt consists of a mortgage note in the original amount of \$563,000 payable to Enterprise Corporation of the Delta over a 12-year period. The mortgage is payable in monthly installments of \$4,454, including interest at 4.25%, and adjusted to 1% over prime as per Wall Street Journal plus 1%. The corporate owned real estate located on South 2nd Street, Monroe, Louisiana, is pledged as collateral on the note. The current portion of the mortgage payable represents the amount of the principle which will be repaid during the next year.

The following is a schedule of the principle amounts maturing during the next five years:

Year Ended December 31	Desiard Street Principle Maturing	Betin Street Principle Maturing	S.D. Hill Principle Maturing
2010	14,278	18,620	37,678
2011	15,558	20,391	39,311
2012	16,953	22,332	41,015
2013	18,473	24,457	42,792
2014	20,130	26,785	44,647

NOTE 12 - PENSION PLAN:

During 2006, the Corporation established a SIMPLE IRA retirement plan for all qualified employees (those who reasonably expect to make \$5,000 or more a year). During 2009, the Corporation contributed \$21,739 to the plan for its share of the required employer match. Employees generally can contribute \$10,500 of their yearly salary to their IRA and the Corporation will match up to 3% of salary.

NOTE 13 - LEGAL MATTERS:

The Corporation is a party to litigation incident to ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we believe the outcome on any litigation will not have a material adverse effect on our financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 14 - SUBSEQUENT EVENTS:

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through June 28, 2010. The Corporation is going to build a dental clinic in the future.

The Corporation also may be able to obtain funding and/or reimbursements from the LPCA Statewide Capital Development Program for costs related to the dental clinic, mobile health clinic, electronic health records project and the S.D. Hill Clinic. At this time, the amount of such funds is not determinable.

NOTE 15 - IMPAIRMENT OF LONG-LIVED ASSETS:

In accordance with the accounting guidance for the impairment or disposal of long-lived assets, the Corporation reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized to date.

NOTE 16 - UNCERTAIN TAX POSITIONS:

The Corporation is subject to examination by various taxing authorities, including federal income tax examinations. Management has reviewed the Corporation's activities and believes that no additional amounts or disclosures are needed, as the effect of any uncertain tax positions is not material to the financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 17 - INVESTMENTS:

During 2009, the Corporation invested \$100,000 in the Louisiana Partnership for Choice and Access, LLC (LLC). The LLC investors are limited to Federally Qualified Health Centers (FQHC) or FQHC look-alike organizations. The LLC investors will own 49% (directly or indirectly) of Healthy Louisiana Choice, Inc. A Louisiana Corporation. They will function as a Medicaid managed organization servicing Louisiana Medicaid beneficiaries. Earnings or losses for the year 2009 are not material.

SUPPLEMENTAL DATA

PRIMARY HEALTH SERVICES CENTER, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

FEDERAL GRANTOR/ <u>PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>EXPENDITURES</u>
U.S. Department of Health and Human Services Bureau of Primary Health Care			
Health Care Cluster*	93.224	H80CS 00754	2,065,252
ARRA-Capital Improvement Program*	93.703	C81CS 13923	610,920
ARRA-Increase Services to Health Centers*	93.703	H8BCS 11884	<u>244,173</u>
<u>Total Expenditures of Federal Awards</u>			<u>2,920,345</u>

* Major Program

The accompanying notes are an integral part of this schedule.

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JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
 CERTIFIED PUBLIC ACCOUNTANTS

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Primary Health Services Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE B SUBRECIPIENTS

During 2009, the Corporation did not have any subrecipients.

PRIMARY HEALTH SERVICES CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified? ☐ yes ☒ no

* Significant deficiency(s) identified that
are not considered to be material weakness(es) ☒ yes ☐ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

* Material weakness (es) identified? ☐ yes ☒ no

* Significant deficiency(s) identified that are not
considered to be material weaknesses? ☒ yes ☐ none reported

Type of auditors' report issued on compliance for major programs:
Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510 (a) of
Circular A-133? ☐ yes ☒ no

Identification of major programs:

CFDA Number (s)	Name of Federal Program or Cluster
93.224	Health Care Cluster
93.703	ARRA-Capital Improvement Program
93.703	ARRA-Increase Services to Health Centers

Dollar threshold used to distinguish
Between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

PRIMARY HEALTH SERVICES CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009

SECTION II - FINDINGS AND RECOMMENDATIONS

2009-1

Condition: We noted that an employment contract was modified by mutual agreement with the Board of Directors and an employee but the written contract has not been updated with the changes in a timely manner.

Criteria: Any changes made to written contracts should be reflected in the written contract by adding an addendum to said contract as soon as possible.

Effect: This finding has no material effect on the financial statements.

Recommendation: We recommend that any approved changes to contracts/agreements be modified by a written addendum and signed by all parties as soon as possible.

Management Response: Management agrees with this finding.

Auditors' Comments: Management agrees to modify contracts or agreements for any approved changes in a written addendum and signed by all parties in a timely manner. Management has modified the employment contract by written addendum and signed by all parties at June 28, 2010.

PRIMARY HEALTH SERVICES CENTER, INC.
PRIOR YEAR FINDINGS-CORRECTIVE ACTION
FOR THE YEAR ENDED DECEMBER 31, 2009

2008-1

Condition: PHSC does not have a formal policy addressing educational leave or advances to employees in the personnel policies.

Recommendation: We recommend that management update the personnel policies to include a formal policy for educational leave and advances to employees.

Result: The personnel policies were updated to include a formal policy for educational leave and advances to employees.

2008-2

Condition: We noted that an employment contract was modified by mutual agreement with the Board of Directors and an employee but the written contract has not been updated with the changes.

Recommendation: We recommend that any changes to contracts/agreements be modified by a written addendum and signed by all parties.

Result: Board approved changes to contracts/agreements were modified by a written addendum and signed by all parties. However, this was not done in a timely manner.

2008-3

Condition: A few employees were paid for extra work performed on special projects that was not reported on their W-2s.

Recommendation: We recommend that all wages paid to employees be included on their W-2s and subject to withholding taxes.

Result: All wages paid to employees, including any special projects, were included on their W-2's and subject to withholding taxes.